

AR46

**DISCOVERY MINES  
LIMITED**

**1981**

**ANNUAL REPORT**



# **DISCOVERY MINES LIMITED**

## **DIRECTORS**

J. C. BYRNE, Toronto, Ontario  
Chairman of the Board, Rayrock Resources Limited

E. G. CHRISTENSON, Oshawa, Ontario  
Vice President, Finance, Rohm and Haas Canada Inc.

D. R. CROMBIE, Toronto, Ontario  
President and Managing Director, Rayrock Resources Limited

E. E. CURRY, Calgary, Alberta  
Chairman, Precambrian Shield Resources Limited

J. S. LIVERMORE, Reno, Nevada  
Manager, Cordex Exploration Co.

W. STEUERMAN, Toronto, Ontario  
Secretary-Treasurer, Rayrock Resources Limited

H. J. WHELAN, Bloomfield, New Jersey  
Senior Vice-President, The Lummus Group Inc.

## **OFFICERS**

J. C. BYRNE  
Chairman of the Board

D. R. CROMBIE  
President and Managing Director

W. STEUERMAN  
Secretary-Treasurer

## **SENIOR GEOLOGIST**

T. Antoniuk

## **EXECUTIVE OFFICE**

Suite 1011, 2200 Yonge Street, Toronto, Canada

## **TRANSFER AGENTS AND REGISTRARS**

CROWN TRUST COMPANY, Toronto.

## **BANKERS**

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto  
CANADIAN IMPERIAL BANK OF COMMERCE, Yonge and Eglinton Branch, Toronto

## **AUDITORS**

COOPERS & LYBRAND, Toronto

## **SOLICITORS**

CAMPBELL, GODFREY & LEWTAS, Toronto

## **ANNUAL AND GENERAL MEETING**

May 28, 1982, 10:00 a.m.  
Confederation Room No. 3, Royal York Hotel  
Toronto, Canada



# DISCOVERY MINES LIMITED

## Directors' Report to the Shareholders:

---

### 1981 HIGHLIGHTS

---

- Amalgamation with Pyx Explorations Ltd.
  - Associated company, Rayrock Resources Limited, has record revenue and profits
- 

Discovery's amalgamation with Pyx Explorations Ltd. is of significant benefit to both companies. The resulting corporation is debt free and has assets with an appraised value of some \$12,000,000 or \$1.77 per common share. The amalgamation was approved by shareholders of both companies at meetings held on January 6th, 1982. Your company will now be able to initiate projects and consider acquisitions that would be beyond the capacity of the individual companies prior to their amalgamation. Exploration risks will be spread over a greater number of projects thus increasing the chances for success. In addition, there will be some savings in taxes and overhead expense.

The initial objective for Discovery is to make an oil and gas acquisition in Western Canada. The industry is undergoing a difficult period caused by lack of new funding, high interest rates and the Alberta/Ottawa agreement on oil and gas pricing and taxation. Since conditions should improve in the near future, it appears appropriate to be evaluating acquisitions during the current year's depressed conditions.

At year end, Discovery held a 40 percent voting interest in Rayrock Resources through holdings of 980,800 common shares and 200,000 preferred shares. Rayrock is a resource development company that is active in mining and petroleum production and exploration. For 1981, Rayrock has reported revenue of \$10,571,000, cash flow of \$4,882,000 or \$1.07 per share and net profit of \$0.75 per share which are all time records for the company. Rayrock owns 26.5% of the Pinson 1,000 ton per day open pit gold mine in Nevada and that operation has repaid its U.S.\$15,750,000 project loan and is now debt free. Revenue in 1981 from Rayrock's share of Pinson production amounted to \$7,877,000.

Rayrock is financing a one-third interest in the Cordex IV Syndicate which conducts mining exploration programs in the Western United States. The syndicate has made a new gold discovery in Nevada that is in the early stages of exploration. Preliminary drilling results indicate the presence of an orebody that is mineable by open pit.



## DISCOVERY MINES LIMITED

In addition to its mining interests and investments, Rayrock owns petroleum and natural gas properties worth some \$14,300,000 or \$3.15/share at a 15% discount rate. Sales revenue from petroleum and natural gas production in 1981 amounted to \$2,329,000. Rayrock's expenditures for oil and gas exploration and development in 1981 were \$1,045,000 in Canada and \$204,000 in the United States.

At the Gordon Lake, N.W.T. gold property, which is two-thirds owned by Discovery, the lessees, Noranda and Pamour, completed milling the ore above the 1,000 foot level in September. The mill, plant and camp have been dismantled for removal from the property over the winter ice road. Production in 1981 amounted to approximately 15,760 ounces of gold. No net profits were earned; however, Discovery will recoup a portion of its expenditures on the property from the lessees. As reported in last year's Annual Report, diamond drilling indicates that the high grade ore vein continues below the 1,000 foot level.

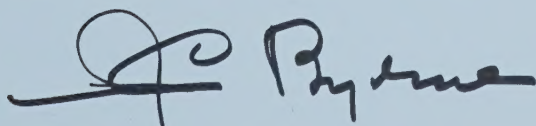
In the Yukon, Arctic Red Resources Corp. has expended some \$350,000 on underground rehabilitation of Discovery's LaForma gold property. The agreement with Arctic Red calls for additional expenditures in 1982. On the LaForma East Block claims no further expenditures will be made as drilling returned very low gold values.

Discovery's 50% owned Johnsby Mines Limited was inactive during the year. Johnsby owns a very large tonnage low grade gold deposit in the Northwest Territories.

The financial statements presented in the Annual Report include a pro forma set of statements for the amalgamated corporation as at December 31, 1981 as well as actual statements for each of Discovery and Pxy Explorations Ltd. as at December 31, 1981. Shareholders should concentrate on the pro forma statements as they provide the clearest picture of the amalgamated corporation.

We thank all shareholders for their continued support and we welcome all new shareholders to the company.

On behalf of the Board,



Chairman of the Board



President and Managing Director

Toronto, Ontario  
April 23, 1982

# DISCOVERY MINES LIMITED

## *Pro-Forma Consolidated Balance*

ASSETS		1981	1980
<b>Current assets</b>			
Cash and short-term investments . . . . .	\$ 817,056	\$ 924,383	
Accounts receivable and prepaid expenses . . . . .	169,964	36,348	
Current portion of amount due from Noranda Mines Limited .	1,000,000	1,000,000	
	<u>1,987,020</u>	<u>1,960,731</u>	
 <b>Due from Noranda Mines Limited (note C) . . . . .</b>	 <u>2,468,019</u>	 <u>3,528,076</u>	
 <b>Long-term investments (note D) . . . . .</b>	 <u>2,623,154</u>	 <u>1,966,457</u>	
 <b>Mining properties (note E)</b>			
Mining claims . . . . .	379,327	383,636	
Deferred exploration and development expenditures . . . . .	1,113,862	1,113,862	
	<u>1,493,189</u>	<u>1,497,498</u>	
 <b>Oil and gas properties (note F) . . . . .</b>	 <u>1,331,483</u>	 <u>947,371</u>	
 <b>Other assets . . . . .</b>	 <u>59,029</u>	 <u>87,228</u>	
	<u>\$9,961,894</u>	<u>\$9,987,361</u>	



# DISCOVERY MINES LIMITED

Sheet as at December 31, 1981 (Note A)

## LIABILITIES

	1981	1980
<b>Current liabilities</b>		
Accounts payable and accrued liabilities . . . . .	\$ 64,027	\$ 62,178
Income taxes payable . . . . .	122,318	14,008
Current portion of deferred income taxes . . . . .	488,000	488,000
	<u>674,345</u>	<u>564,186</u>
<b>Deferred income taxes (note G) . . . . .</b>	<b>1,440,000</b>	<b>1,643,546</b>
<b>Minority interest in subsidiary company . . . . .</b>	<b>26,394</b>	<b>27,244</b>
	<u><u>2,140,739</u></u>	<u><u>2,234,976</u></u>

## SHAREHOLDERS' EQUITY

<b>Capital stock</b>		
Authorized —		
2,000,000 preference shares, par value \$1 each		
10,000,000 common shares of no par value		
Issued (note H) —		
6,631,963 common shares (1980 — 6,549,163) . . . . .	8,138,816	8,000,816
<b>Contributed surplus . . . . .</b>	<b>587,454</b>	<b>587,454</b>
<b>Deficit . . . . .</b>	<b>(905,115)</b>	<b>(835,885)</b>
	<u>7,821,155</u>	<u>7,752,385</u>
	<u><u>\$9,961,894</u></u>	<u><u>\$9,987,361</u></u>

# DISCOVERY MINES LIMITED

## Pro-Forma Consolidated Statement of Deficit

For the Year Ended December 31, 1981

(Note A)

	1981	1980
Deficit — beginning of year . . . . .	\$ 835,885	\$2,693,512
Net loss (earnings) for the year . . . . .	69,230	(1,920,826)
Share issue expenses . . . . .	—	63,199
Deficit — end of year . . . . .	<u>\$ 905,115</u>	<u>\$ 835,885</u>

## Pro-Forma Consolidated Statement of Earnings

For the Year Ended December 31, 1981

(Note A)

	1981	1980
<b>Income</b>		
Revenue from petroleum operations . . . . .	\$ 98,719	\$ 159,782
Investment income . . . . .	239,737	121,882
Gain on disposal of fixed assets and investments . . . . .	2,388	48,168
	<u>340,844</u>	<u>329,832</u>
<b>Expenses</b>		
Cost of petroleum production . . . . .	47,809	75,538
Petroleum and gas revenue tax . . . . .	4,341	—
General and administrative expenses . . . . .	296,501	270,309
Bank interest . . . . .	—	11,185
General exploration . . . . .	32,273	215,646
Depreciation and depletion . . . . .	46,772	30,464
Amortization of other assets . . . . .	31,551	—
Loss on sale of investments . . . . .	5,022	—
	<u>464,269</u>	<u>603,142</u>
Loss before undernoted items . . . . .	(123,425)	(273,310)
Share of earnings (loss) determined by the equity method . . . . .	850	(10,646)
(Loss) before income taxes . . . . .	<u>(122,575)</u>	<u>(283,956)</u>
Provision for (recovery of) income taxes		
Current . . . . .	150,201	(75,757)
Deferred . . . . .	(203,546)	(74,505)
	<u>(53,345)</u>	<u>(150,262)</u>
(Loss) before extraordinary items . . . . .	<u>(69,230)</u>	<u>(133,694)</u>
Extraordinary items (note J) . . . . .	—	2,054,520
Net (loss) earnings for the year . . . . .	<u>\$ (69,230)</u>	<u>\$1,920,826</u>
(Loss) per share before extraordinary items . . . . .	<u>\$(.01)</u>	<u>\$(.02)</u>
(Loss) earnings per share for the year . . . . .	<u>\$(.01)</u>	<u>\$ .29</u>



# Pro-Forma Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1981

(Note A)

	1981	1980
<b>Source of working capital</b>		
Proceeds on sale of Rayrock investment . . . . .	\$ —	\$1,015,306
Issue of shares . . . . .	138,000	1,241,857
Reduction in amount due from Noranda Mines . . . . .	1,060,057	1,415,476
Proceeds on sale of investments . . . . .	18,780	361,286
Proceeds on sale of mining property . . . . .	2,389	—
	<u>1,219,226</u>	<u>4,033,925</u>
<b>Use of working capital</b>		
Used in operations		
Loss for the year before extraordinary items . . . . .	69,230	133,694
Items not affecting working capital —		
Depreciation and amortization . . . . .	(78,323)	(30,464)
Loss on disposal of investments . . . . .	(5,022)	48,168
Gain on disposal of mining property . . . . .	2,388	—
Recovery of deferred income taxes . . . . .	203,546	74,505
Share of earnings determined by the equity method . . . . .	850	(10,646)
Deferred expenses of prior year written off . . . . .	—	(97,213)
Used in operations . . . . .	<u>192,669</u>	<u>118,044</u>
Expenditure on petroleum and natural gas leases . . . . .	426,081	447,775
Purchase of fixed assets . . . . .	3,847	2,951
Investments and advances . . . . .	680,499	642,252
Acquisition of subsidiary companies . . . . .	—	401,994
Current portion of deferred income taxes . . . . .	—	488,000
Deferred charges . . . . .	—	70,952
Share issue expenses . . . . .	—	63,199
	<u>1,303,096</u>	<u>2,235,167</u>
(Decrease) increase in working capital . . . . .	(83,870)	1,798,758
Working capital (deficiency) — beginning of year . . . . .	1,396,545	(402,213)
Working capital — end of year . . . . .	<u>\$1,312,675</u>	<u>\$1,396,545</u>



**Notes to the Pro-Forma Consolidated Financial Statements**  
**FOR THE YEAR ENDED DECEMBER 31, 1981**  
(Note A)

**A. BUSINESS COMBINATION**

On January 7, 1982, Pyx Explorations Ltd. ("Pyx") and a wholly-owned subsidiary of Discovery Mines Limited ("Discovery") and Discovery amalgamated under the name of Discovery Mines Limited pursuant to the provisions of the Canada Business Corporations Act in accordance with the amalgamation agreement dated December 4, 1981, among these three parties.

On the amalgamation, treasury common shares of Discovery were issued to the shareholders of Pyx, exchanging five common shares of Pyx for three common shares of Discovery.

The amalgamation has been accounted for on a pooling-of-interests basis, whereby the combining companies are considered to have been one entity throughout their existence, and the effect of inter company transactions is eliminated. These pro-forma consolidated financial statements are included as supplemental information to the 1981 financial statements of both Discovery and Pyx to disclose the substance of the merger and the effects of the merger on the reported financial position and results of operations of the amalgamating companies.

**B. ACCOUNTING POLICIES**

The accounting policies of the company are in accordance with generally accepted accounting principles. Those policies considered particularly significant are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Camlaren Mines Limited. The accounts of a subsidiary company, Avoca Mines Canada Limited, have not been consolidated herein because the subsidiary of that company is currently being supported by the Government of Ireland and increases in equity are not likely to accrue to the parent company. The investment in Avoca is carried at nominal value.

(b) Long-term investments

The investment in shares of significantly influenced companies is carried at cost adjusted by the company's share of their earnings or losses since significant influence was obtained.

Other long-term investments, including investment in Rayrock Resources Limited, are carried at cost and are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expenses in the year incurred.

Costs incurred in exploring for oil and gas, including participation in joint ventures, are capitalized until completion of the particular exploration and drilling programme, at which time the costs of unsuccessful programmes are written off.

(d) Depreciation and depletion

Depreciation on equipment is provided on a declining balance basis at a rate of 20% per annum. Depletion of oil and gas properties and drilling costs is determined partly by the unit-of-production method based on proven reserves and partly on a straight-line basis over 60 months.



## DISCOVERY MINES LIMITED

### (e) Income taxes

The company follows the deferral method of income tax allocation whereby the provision for income taxes is based on income reported in the accounts.

Principal timing differences result from reserves claimed for tax purposes on the Noranda receivable and from exploration expenditures claimed for tax purposes in excess of amounts written off for accounting purposes.

The effective rate of tax is less than the combined federal and provincial rates, due to permanent differences such as depletion allowances, resource allowances and other mining allowances.

### C. DUE FROM NORANDA MINES LIMITED ("NORANDA")

	1981	1980
Receivable arising on the disposition to Noranda of a share of a net profits contract . . . . .	\$3,400,000	\$4,400,000
Less current portion . . . . .	1,000,000	1,000,000
	<u>2,400,000</u>	<u>3,400,000</u>
Receivable on the basis of \$0.25 per ton of ore mined and milled from a producing property formerly owned by the company . . . . .	68,019	128,076
	<u>\$2,468,019</u>	<u>\$3,528,076</u>

### D. LONG-TERM INVESTMENTS

	1981	1980
Investment in shares of Rayrock Resources Limited — Common shares — (quoted market value \$4,189,000; 1980 — \$7,731,000) . . . . .	\$2,061,488	\$1,696,485
Preference shares . . . . .	200,000	100,000
	<u>2,261,488</u>	<u>1,796,485</u>
Debentures and advances to significantly influenced companies	15,007	7
Investments in other mining companies — at cost (quoted market value \$166,000; 1980 — \$270,000) . . . . .	197,659	158,965
Non-interest bearing advances to officers, directors and employees under a stock purchase plan, due on or before December 31, 1986 . . . . .	149,000	11,000
	<u>\$2,623,154</u>	<u>\$1,966,457</u>

### E. MINING PROPERTIES

- i) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company and are carried at cost, less amounts written off.

- ii) Deferred exploration and development expenditures:

Camlaren Project . . . . .	\$1,113,862
----------------------------	-------------

During 1979 the company and Camlaren Mines Limited entered into an agreement with Noranda Mines Limited ("Noranda") and Pamour Porcupine Mines Limited ("Pamour"), wherein Noranda and Pamour placed the gold mining property situated on Muir Island in Gordon Lake, Northwest

# DISCOVERY MINES LIMITED

Territories into production. This agreement provided for the recovery by the company of previous expenditures together with a profit share of the project after recoupment of expenditures by all parties. The company had direct and indirect interests totalling approximately 89% in the mining property.

However, in 1981 the mining operations on the property were terminated. In view of the negative results thereof, Noranda and Pamour have not recouped their costs of production. As a consequence, the company expects to receive a substantially lesser amount from the operation than originally envisaged under the agreement with Noranda and Pamour.

The recoverability of the amount shown for mineral properties and the related deferred exploration and development costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the developments, and future profitable operations.

## F. OIL AND GAS PROPERTIES

	1981			1980
	Petroleum and natural gas leases	Well equipment	Total	Total
Cost .....	\$1,436,371	\$7,533	\$1,443,904	\$1,013,977
Less accumulated depletion and depreciation .....	109,279	3,142	112,421	66,606
Net book value .....	<u>\$1,327,092</u>	<u>\$4,391</u>	<u>\$1,331,483</u>	<u>\$ 947,371</u>

## G. INCOME TAXES

- The parent company has approximately \$1,325,000 of exploration and development expenditures available for income tax purposes of which \$330,000 is not reflected in the accounts.
- The company has loss carry-forwards for income tax purposes of approximately \$59,000 which expire by December 31, 1982.
- The potential tax benefits arising from the deferred exploration and development expenditures and the loss carry-forwards have not been reflected in these pro-forma consolidated financial statements, and will be recognized in future periods only to the extent they are deductible for income tax purposes.

## H. ISSUED CAPITAL STOCK

- For the purpose of these pro-forma consolidated financial statements, the issued capital stock on amalgamation was determined as follows:

	1981		1980	
	Number of shares		Number of shares	
Common shares issued to the former shareholders of Discovery on a one-for-one exchange .....	4,255,630	\$4,640,630	4,255,630	\$4,640,630
Common shares issued to the former shareholders of Pyx on a three-for-five exchange .....	2,376,333	3,498,186	2,293,533	3,360,186
Total .....	<u>6,631,963</u>	<u>\$8,138,816</u>	<u>6,549,163</u>	<u>\$8,000,816</u>



ii) Shares issued in the year

During the year, a total of 82,800 shares (138,000 shares of Pyx were issued) were issued pursuant to an employee share purchase plan for a consideration of \$138,000.

**I. STATUTORY INFORMATION**

A total remuneration of \$10,000 was paid or payable by the company to the directors and senior officers for the year ended December 31, 1981 (1980 — \$6,000).

**J. EXTRAORDINARY ITEMS**

	1981	1980
Gain on disposition of a share of a net profit contract formerly owned by the company, net of income taxes of \$2,228,019 and minority interest of \$692,316 . . . . .	\$ —	\$1,548,425
Gain on sale of 400,000 shares of Rayrock Resources Limited (net of \$130,609 deferred tax provision) . . . . .	—	358,124
Realization of previously unrecorded tax benefits . . . . .	—	147,971
	<u>\$ —</u>	<u>\$2,054,520</u>

**K. RELATED PARTY TRANSACTIONS**

- (a) During the year, the company purchased 30,800 shares of Rayrock Resources Limited (“Rayrock”) to hold 1,087,900 shares at December 31, 1981. The company owns an additional 200,000 six-percent cumulative preference shares of Rayrock. Rayrock, in turn, owns 38.0% of the company’s outstanding shares.
- (b) Rayrock pays substantially all of the remuneration of directors and senior officers together with the rent and other joint costs (including general exploration) of associated companies, and is reimbursed by the companies for their proportionate share thereof. The amount paid during the year by the company in respect of such charges was \$177,850 (1980 — \$139,200).

# DISCOVERY MINES LIMITED

## *Consolidated Balance Sheet as at December 31, 1981*

ASSETS		1981	1980
<b>Current assets</b>			
Cash and term deposits . . . . .	\$ 393,496	\$ 816,577	
Accounts receivable . . . . .	39,717	26,707	
Income taxes recoverable . . . . .	—	7,000	
	<u>433,213</u>	<u>850,284</u>	
<b>Due from Pyx Explorations Ltd. (note 3) . . . . .</b>	<b>616,000</b>	<b>—</b>	
<b>Long-term investments (notes 4 and 9) . . . . .</b>	<b>1,821,891</b>	<b>1,561,711</b>	
<b>Mining Properties (note 5)</b>			
Mining claims . . . . .	273,300	342,615	
Deferred exploration and development expenditures . . . . .	1,113,862	1,113,862	
	<u>1,387,162</u>	<u>1,456,477</u>	
<b>Petroleum and natural gas leases — at cost, less accumulated depletion of \$109,279 (1980 — \$65,345) . . . . .</b>	<b>677,325</b>	<b>356,457</b>	
<b>Other assets . . . . .</b>	<b>55,584</b>	<b>87,228</b>	
	<u><u>\$4,991,175</u></u>	<u><u>\$4,312,157</u></u>	
LIABILITIES		1981	1980
<b>Current liabilities</b>			
Accounts payable and accrued liabilities . . . . .	\$ 40,846	\$ 38,699	
Petroleum and gas revenue taxes payable . . . . .	2,091	—	
	<u>42,937</u>	<u>38,699</u>	
<b>Minority interest . . . . .</b>	<b>26,394</b>	<b>27,244</b>	
	<u>69,331</u>	<u>65,943</u>	
SHAREHOLDERS' EQUITY			
<b>Capital stock (note 6) . . . . .</b>	<b>4,640,630</b>	<b>4,640,630</b>	
<b>Contributed surplus . . . . .</b>	<b>506,774</b>	<b>506,774</b>	
<b>Deficit . . . . .</b>	<b>(225,560)</b>	<b>(901,190)</b>	
	<u>4,921,844</u>	<u>4,246,214</u>	
	<u><u>\$4,991,175</u></u>	<u><u>\$4,312,157</u></u>	

Signed on behalf of the Board

J. C. BYRNE, Director

H. J. WHELAN, Director



# DISCOVERY MINES LIMITED

## Consolidated Statement of Deficit

For the Year Ended December 31, 1981

	1981	1980
<b>Deficit — beginning of year</b>		
As previously reported .....	\$ 839,821	\$1,213,815
Adjustment to prior years' net earnings (note 9) .....	61,369	14,289
As restated .....	901,190	1,228,104
Net (earnings) for the year .....	(675,630)	(390,113)
Share issue expenses .....	—	63,199
<b>Deficit — end of year .....</b>	<b>\$ 225,560</b>	<b>\$ 901,190</b>

## Consolidated Statement of Earnings

For the Year Ended December 31, 1981

	1981	1980
<b>Income</b>		
Revenue from petroleum operations .....	\$ 97,667	\$ 159,361
Investment income .....	204,863	71,907
Gain on sale of investments .....	311	17,542
Gain on sale of mining properties (note 10(c)) .....	649,075	—
	951,916	248,810
<b>Expenses</b>		
Cost of petroleum production .....	47,182	75,190
Petroleum and gas revenue taxes .....	4,341	—
Administrative and general .....	143,123	154,212
Bank interest .....	—	11,185
Depreciation and depletion .....	44,029	28,348
General exploration .....	6,910	67,849
Amortization of other assets .....	31,551	—
	277,136	336,784
<b>Earnings (loss) before the undernoted items .....</b>	<b>674,780</b>	<b>(87,974)</b>
<b>Provision for (recovery of) income taxes .....</b>	<b>347,750</b>	<b>(46,327)</b>
	327,030	(41,647)
<b>Share of earnings (loss) determined by the equity method (note 9) .....</b>	<b>850</b>	<b>(10,646)</b>
<b>Earnings before extraordinary items .....</b>	<b>327,880</b>	<b>(52,293)</b>
<b>Extraordinary items (note 8) .....</b>	<b>347,750</b>	<b>442,406</b>
<b>Net earnings for the year .....</b>	<b>\$ 675,630</b>	<b>\$ 390,113</b>
<b>Earnings (loss) per share before extraordinary items .....</b>	<b>\$ .08</b>	<b>\$(0.01)</b>
<b>Earnings per share for the year .....</b>	<b>\$ .16</b>	<b>\$ .09</b>

# DISCOVERY MINES LIMITED

## Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1981

	1981	1980
<b>Source of working capital</b>		
Proceeds on issue of treasury stock .....	\$ —	\$1,241,857
Proceeds on sale of mining properties .....	718,388	—
Proceeds on sale of investments .....	5,311	1,114,464
Reduction in current income taxes (note 8) .....	347,750	—
	<u>1,071,449</u>	<u>2,356,321</u>
<b>Use of working capital</b>		
Earnings (loss) before extraordinary items .....	327,880	(52,293)
Items not affecting working capital —		
Recovery of deferred income taxes .....	—	(46,327)
Depreciation, depletion and amortization .....	75,580	28,348
Gain on sale of investments .....	(311)	(17,542)
Gain on sale of mining properties .....	(649,075)	—
Share of earnings determined by the equity method .....	(850)	10,646
Used in operations .....	246,776	77,168
Issue of promissory note .....	616,000	—
Purchase of investments .....	265,180	192,397
Purchase of petroleum and natural gas properties .....	364,802	129,802
Deferred charges .....	—	70,952
Share issue expenses .....	—	63,199
Acquisition of subsidiary company .....	—	16,857
	<u>1,492,758</u>	<u>550,375</u>
<b>(Decrease) increase in working capital</b> .....	<u>(421,309)</u>	<u>1,805,946</u>
<b>Working capital (deficiency) — beginning of year</b> .....	<u>811,585</u>	<u>(994,361)</u>
<b>Working capital — end of year</b> .....	<u>\$ 390,276</u>	<u>\$ 811,585</u>

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Discovery Mines Limited as at December 31, 1981 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for investment income referred to in note 9 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada  
March 19, 1982

COOPERS & LYBRAND  
Chartered Accountants



# DISCOVERY MINES LIMITED

## Notes to Consolidated Financial Statements FOR THE YEAR ENDED DECEMBER 31, 1981

### 1. ACCOUNTING POLICIES

The accounting policies of the company are in accordance with generally accepted accounting principles. Those policies considered particularly significant are outlined below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Camlaren Mines Limited. The accounts of a subsidiary company, Avoca Mines Canada Limited, have not been consolidated herein because the subsidiary of that company is currently being supported by the Government of Ireland and increases in equity are not likely to accrue to the parent company. The investment in Avoca is carried at nominal value.

(b) Long-term investments

The investment in shares of significantly influenced companies is carried at cost adjusted by the company's share of their earnings or losses since significant influence was obtained.

Other long-term investments, including investment in Rayrock Resources Limited, are carried at cost and are written down when there is evidence that their inherent worth has declined below their carried value.

(c) Deferred exploration and development expenditures

These expenditures are deferred until such time as they are written off against production from the property to which they apply or until the claims are sold or otherwise disposed of. Expenditures made in the general search for minerals are normally charged to expense in the year incurred.

Costs incurred in exploring for oil and gas, including participation in joint ventures, are capitalized until completion of the particular exploration and drilling programme, at which time the costs of unsuccessful programmes are written off.

(d) Depreciation and depletion

Depreciation on equipment is provided on a declining balance basis at a rate of 20% per annum. Depletion of oil and gas properties and drilling costs is determined partly by the unit-of-production method based on proven reserves and partly on a straight-line basis over 60 months.

(e) Income taxes

The company follows the deferral method of tax allocation whereby the provision for income taxes is based on the income reported in the accounts.

### 2. BUSINESS COMBINATION — SUBSEQUENT EVENT

On January 7, 1982, Pyx Explorations Ltd. ("Pyx") and a wholly-owned subsidiary of Discovery Mines Limited ("Discovery") and Discovery amalgamated under the provisions of the Canada Business Corporations Act in accordance with the amalgamation agreement dated December 4, 1981 among these three parties.

On the amalgamation, treasury common shares of Discovery were issued to the shareholders of Pyx, exchanging five common shares of Pyx for three common shares of Discovery.

The merger has been accounted for on the pooling-of-interests basis. Pro-forma information on the financial position as at December 31, 1981 and the results of operations and changes in financial position for the year then ended, on a pooling-of-interests basis, is included in Appendix A-1 to Appendix A-7.

### 3. DUE FROM PYX EXPLORATIONS LTD.

This amount is due for repayment in 1983, and bears interest currently at prime plus 1%.

### 4. LONG-TERM INVESTMENTS

(a)	1981	1980
Investment in shares of Rayrock Resources Limited at cost —		
Common shares .....	\$1,543,163	\$1,404,277
Preference shares .....	200,000	100,000
	1,743,163	1,504,277
Debentures and advances to significantly influenced companies .....	15,007	4
Other investments — at cost — .....	63,721	57,430
	<u>\$1,821,891</u>	<u>\$1,561,711</u>

# DISCOVERY MINES LIMITED

- (b) The quoted market value of the common shares of Rayrock Resources Limited is \$3,776,080 (1980 — \$7,244,000).
- (c) Other investments consist of listed shares carried at a cost of \$63,721 with a quoted market value of \$41,159 (1980 — \$57,430 and \$53,500 respectively).
- (d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

## 5. MINING PROPERTIES

- (a) Mining claims were acquired for cash and shares of capital stock as valued by the directors of the applicable company and are carried at cost, less amounts written off:
- (b) Deferred exploration and development expenditures:

Camlaren Project .....	<u>\$1,113,862</u>
------------------------	--------------------

During 1979 the company and Camlaren Mines Limited entered into an agreement with Noranda Mines Limited ("Noranda") and Pamour Porcupine Mines Limited ("Pamour"), wherein Noranda and Pamour placed the gold mining property situated on Muir Island in Gordon Lake, Northwest Territories into production. This agreement provided for the recovery by the company of previous expenditures together with a profit share of the project after recoupment of expenditures by all parties. The company had direct and indirect interests totalling approximately 89% in the mining property.

However, in 1981 the mining operations on the property were terminated. In view of the negative results thereof, Noranda and Pamour have not recouped their costs of production. As a consequence, the company expects to receive a substantially lesser amount from the operation than originally envisaged under the agreement with Noranda and Pamour.

The recoverability of the amount shown for mineral properties and the related deferred exploration and development costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the developments, and future profitable operations.

## 6. CAPITAL STOCK

	<u>1981</u>	<u>1980</u>
Authorized —		
2,000,000 preference shares of \$1 par value		
6,000,000 common shares of no par value		
Issued and fully paid —		
4,255,630 common shares (1980 — 4,255,630) .....	<u>\$4,640,630</u>	<u>\$4,640,630</u>

## 7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors and senior officers, as defined in The Business Corporations Act of Ontario, received direct remuneration from the company in the year ended December 31, 1981 of \$7,700 (1980 — \$6,000).

## 8. EXTRAORDINARY ITEMS

	<u>1981</u>	<u>1980</u>
Gain on sale of 400,000 shares of Rayrock Resources Limited (net of \$130,609 deferred tax provision) .....	\$ —	\$ 358,124
Realization of previously unrecorded tax benefits (note 11(c)) .....	347,750	84,282
	<u>\$ 347,750</u>	<u>\$ 442,406</u>

## 9. CHANGE IN ACCOUNTING POLICY

During the year the company adopted the policy of accounting for its shares of earnings of Rayrock Resources Limited solely on the basis of dividends that may be received. Previously the company reflected its share of



Rayrock's earnings on an equity basis, including in the calculation thereof the full effect of the reciprocal shareholdings described in note 10(a) in the consolidated statement of earnings.

As a result of the change, which has been applied retroactively, consolidated net earnings for 1981 and 1980 have been reduced by \$462,445 and \$47,080 respectively, with an increase of \$14,289 applying to years prior to 1980.

#### **10. RELATED PARTY TRANSACTIONS**

- (a) During the year, the company purchased 30,800 shares of Rayrock Resources Limited ("Rayrock") to hold 980,800 common shares at December 31, 1981, representing 21.6% of the outstanding common shares of Rayrock. The company owns an additional 200,000 six-percent cumulative preference shares of Rayrock. Rayrock in turn owns 41.1% of the company's outstanding shares.
- (b) Rayrock pays substantially all of the remuneration of directors and senior officers together with the rent and other joint costs (including general exploration) of associated companies, and is reimbursed by the companies for their proportionate share thereof. The amount paid during the year by the company in respect of such charges was \$76,500 (1980 — \$63,200).
- (c) During the current year the company sold certain mining claims to an associated company at the estimated fair market value of the claims on the date of the sale. The estimated fair market value was determined by an independent valuation.
- (d) During the current year the company purchased certain interests in petroleum and natural gas leases from an associated company at the estimated fair market value of the leases at the date of purchase. The estimated fair market value was independently determined.

#### **11. INCOME TAXES**

- (a) The parent company has approximately \$1,325,000 of exploration and development expenditures available for income tax purposes of which \$330,000 is not reflected in the accounts.
- (b) The company has loss carry-forwards for income tax purposes of approximately \$59,000 which expire by December 31, 1982.
- (c) The potential tax benefits arising from the deferred exploration and development expenditures and the loss carry-forwards have not been reflected in these consolidated financial statements, and will be recognized in future periods only to the extent they are deductible for income tax purposes.

**PYX EXPLORATIONS LTD.***Balance Sheet as at December 31, 1981*

<b>ASSETS</b>		
	<b>1981</b>	<b>1980</b>
<b>Current assets</b>		
Cash and short-term deposits .....	\$ 423,560	\$ 107,806
Accounts receivable .....	130,247	2,641
Current portion of amount due from Noranda Mines Limited .....	1,000,000	1,000,000
	<u>1,553,807</u>	<u>1,110,447</u>
<b>Due from Noranda Mines Limited</b> (note 3) .....	<b>2,468,019</b>	<b>3,528,076</b>
<b>Long-term investments</b> (note 4) .....	<b>801,263</b>	<b>404,746</b>
<b>Mining properties</b> — at cost, less amounts written off (note 5) .....	<b>756,159</b>	<b>41,021</b>
<b>Petroleum and natural gas properties</b> — at cost .....	<b>740,547</b>	<b>590,914</b>
	<u><b>\$6,319,795</b></u>	<u><b>\$5,675,204</b></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities .....	\$ 23,181	\$ 23,479
Income taxes payable .....	120,227	14,008
Current deferred income taxes .....	488,000	488,000
	<u>631,408</u>	<u>525,487</u>
<b>Due to Discovery Mines Limited</b> (note 6) .....	<b>616,000</b>	<b>—</b>
<b>Deferred income taxes</b> .....	<b>1,440,000</b>	<b>1,643,546</b>
	<u><b>2,687,408</b></u>	<u><b>2,169,033</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock</b> (note 7) .....	<b>3,498,186</b>	<b>3,360,186</b>
<b>Contributed surplus</b> .....	<b>80,680</b>	<b>80,680</b>
<b>Retained earnings</b> .....	<b>53,521</b>	<b>65,305</b>
	<u><b>3,632,387</b></u>	<u><b>3,506,171</b></u>
	<u><b>\$6,319,795</b></u>	<u><b>\$5,675,204</b></u>

Signed on behalf of the Board

J. C. BYRNE, Director

W. STEUERMAN, Director

**PYX EXPLORATIONS LTD.****Statement of Retained Earnings****For the Year Ended December 31, 1981**

	1981	1980
<b>Retained earnings (deficit) — beginning of year</b> .....	<b>\$ 65,305</b>	<b>\$(1,465,408)</b>
Net (loss) earnings for the year .....	<b>(11,784)</b>	<b>1,530,713</b>
<b>Retained earnings — end of year</b> .....	<b>\$ 53,521</b>	<b>\$ 65,305</b>

**Statement of Earnings****For the Year Ended December 31, 1981**

	1981	1980
<b>Income</b>		
Revenue from petroleum operations .....	<b>\$ 1,052</b>	<b>\$ 422</b>
Interest and dividend income .....	<b>108,603</b>	<b>49,974</b>
(Loss) Gain on disposal of investments .....	<b>(5,333)</b>	<b>30,626</b>
Gain on disposal of petroleum and natural gas leases (note 10(d)) .....	<b>86,389</b>	<b>—</b>
	<b>190,711</b>	<b>81,022</b>
<b>Expenses</b>		
Cost of petroleum production .....	<b>625</b>	<b>348</b>
Depreciation and amortization .....	<b>2,743</b>	<b>2,116</b>
General and administrative .....	<b>151,445</b>	<b>111,001</b>
General exploration .....	<b>25,363</b>	<b>147,797</b>
Interest .....	<b>75,664</b>	<b>5,096</b>
	<b>255,840</b>	<b>266,358</b>
<b>(Loss) before income taxes and extraordinary items</b> .....	<b>(65,129)</b>	<b>(185,336)</b>
<b>Recovery of (provision for) income taxes</b>		
Current .....	<b>(150,201)</b>	<b>75,757</b>
Deferred .....	<b>203,546</b>	<b>28,178</b>
	<b>53,345</b>	<b>103,935</b>
<b>Net (loss) before extraordinary items</b> .....	<b>(11,784)</b>	<b>(81,401)</b>
<b>Extraordinary items</b> (note 9) .....	<b>—</b>	<b>1,612,114</b>
<b>Net (loss) earnings for the year</b> .....	<b>\$ (11,784)</b>	<b>\$1,530,713</b>
<b>(Loss) per share before extraordinary items</b> .....	<b>\$ —</b>	<b>\$(0.02)</b>
<b>Earnings per share for the year</b> .....	<b>\$ —</b>	<b>\$0.40</b>



# PYX EXPLORATIONS LTD.

## Statement of Changes in Financial Position

For the Year Ended December 31, 1981

	1981	1980
<b>Source of working capital</b>		
Issue of shares . . . . .	\$ 138,000	\$ —
Reduction of amount due from Noranda Mines Limited . . . . .	1,060,057	1,415,476
Proceeds on sale of investments . . . . .	13,468	262,128
Proceeds on sale of petroleum and natural gas leases . . . . .	297,684	—
Issue of promissory note . . . . .	616,000	—
	<u>2,125,209</u>	<u>1,677,604</u>
<b>Use of working capital</b>		
Used in operations —		
Net loss before extraordinary items . . . . .	11,784	81,401
Items not affecting working capital —		
Depreciation and amortization . . . . .	(2,743)	(2,116)
Recovery of deferred income taxes . . . . .	203,546	28,178
Gain (loss) on disposal of investments . . . . .	(5,333)	30,626
Gain on disposal of petroleum and natural gas leases . . . . .	86,389	—
Write-off of prior years' deferred exploration and development expenses . . . . .	—	(97,213)
Used in operations . . . . .	<u>293,643</u>	<u>40,876</u>
Acquisition of subsidiary companies . . . . .	—	385,137
Current portion of deferred income taxes arising from the extraordinary items . . . . .	—	488,000
Expenditure on petroleum and natural gas leases . . . . .	362,808	320,924
Purchase of mining properties . . . . .	716,000	—
Investments and advances . . . . .	415,319	449,855
	<u>1,787,770</u>	<u>1,684,792</u>
<b>Increase (decrease) in working capital . . . . .</b>	<b>337,439</b>	<b>(7,188)</b>
<b>Working capital — beginning of year . . . . .</b>	<b>584,960</b>	<b>592,148</b>
<b>Working capital — end of year . . . . .</b>	<b><u>\$ 922,399</u></b>	<b><u>\$ 584,960</u></b>

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Pyx Explorations Ltd. as at December 31, 1981 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
March 19, 1982

COOPERS & LYBRAND  
Chartered Accountants

## Notes to Financial Statements

### FOR THE YEAR ENDED DECEMBER 31, 1981

#### 1. ACCOUNTING POLICIES

The accounting policies of the company are in accordance with generally accepted accounting principles. Those policies considered particularly significant are outlined below:

(a) Long-term investments

Investments are carried at cost and are written down when there is evidence of a decline in their inherent worth below their carried value.

(b) Deferred exploration and development expenses

Exploration and development expenses relating to mining properties and petroleum and natural gas leases are deferred until the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred expenses are written off.

(c) Amortization of petroleum and natural gas leases

Amortization is charged on the unit of production basis calculated on the unamortized balance at the beginning of the year. No amortization is charged on the current leases as they are not in the production stage.

(d) Income taxes

The company follows the deferral method of income tax allocation whereby the provision for income taxes is based on income reported in the accounts.

Principal timing differences result from reserves claimed for tax purposes on the Noranda receivable and from exploration expenditures claimed for tax purposes in excess of amounts written off for accounting purposes.

The effective rate of tax is less than the combined federal and provincial rates, due to permanent differences such as depletion allowances, resource allowances and other mining allowances.

#### 2. BUSINESS COMBINATION — SUBSEQUENT EVENT

On January 7, 1982, Pyx Explorations Ltd. ("Pyx") and a wholly-owned subsidiary of Discovery Mines Limited ("Discovery") and Discovery amalgamated as Discovery Mines Limited under the provisions of the Canada Business Corporations Act in accordance with the amalgamation agreement dated December 4, 1981 among these three parties.

On the amalgamation, treasury common shares of Discovery were issued to the shareholders of Pyx, exchanging five common shares of Pyx for three common shares of Discovery.

The merger has been accounted for on the pooling-of-interests basis. Pro-forma information on the financial position as at December 31, 1981 and the results of operations and changes in financial position for the year then ended, on a pooling-of-interests basis, is included in Appendix A-1 to Appendix A-11 to these statements.

#### 3. DUE FROM NORANDA MINES LIMITED (NORANDA)

	1981	1980
Receivable arising on the disposition to Noranda of a net profits contract . . . . .	\$3,400,000	\$4,400,000
Less: current portion . . . . .	1,000,000	1,000,000
	2,400,000	3,400,000
Receivable on a quarterly basis at the rate of \$0.25 per ton of ore mined and milled from a producing property formerly owned by the company . . . . .	68,019	128,076
	<u>\$2,468,019</u>	<u>\$3,528,076</u>

# PYX EXPLORATIONS LTD.

## 4. LONG-TERM INVESTMENTS

	<u>1981</u>	<u>1980</u>
Investment in shares of Rayrock Resources Limited — at cost (quoted market value 1981 — \$411,565; 1980 — \$487,237) .....	\$518,325	\$292,208
Investment in other mining companies — at cost (quoted market value 1981 — \$125,421; 1980 — \$216,645) .....	133,935	101,535
Unlisted shares and debentures — at nominal value .....	3	3
Non-interest bearing advances to officers, directors and employees under a stock purchase plan, due on or before December 31, 1986 .....	149,000	11,000
	<u>\$ 801,263</u>	<u>\$ 404,746</u>

## 5. NATURE OF MINING OPERATIONS

The company has carried out exploration and development work on its mining properties and has not determined whether these properties contain ore reserves that are economically recoverable. The company is not presently carrying on active exploration. The recoverability of the amounts shown for mining properties and related deferred costs is dependent upon the existence of economically recoverable reserves, the ability of the company to obtain necessary financing to complete the development, and upon future profitable production.

## 6. DUE TO DISCOVERY MINES LIMITED

This promissory note is due for repayment in 1983 and bears interest currently at prime plus 1%.

## 7. CAPITAL STOCK

	<u>1981</u>	<u>1980</u>
(a) Authorized —		
5,000,000 first preference shares of no par value		
1,000,000 second preference shares of no par value		
6,000,000 common shares of no par value		
Issued —		
3,960,555 common shares (1980 — 3,822,555) .....	<u>\$3,498,186</u>	<u>\$3,360,186</u>

### (b) Shares issued in the year

A total of 138,000 common shares were issued during the year pursuant to the employee share purchase plan for a consideration of \$138,000.



# PYX EXPLORATIONS LTD.

## 8. STATUTORY INFORMATION

A total remuneration of \$3,000 was paid or payable by the company to the directors and senior officers for the year ended December 31, 1981 (1980 — nil).

## 9. EXTRAORDINARY ITEMS

	1981	1980
Gain on disposition of Norita Quebec Mines Limited ("Norita") share of a net profit contract, net of income taxes of \$2,228,019 and minority interest of \$692,316 .....	\$ —	\$1,548,425
Realization of the tax savings on application of loss carry-forward .....	—	63,689
	<u>\$ —</u>	<u>\$1,612,114</u>

During 1980, the company purchased the minority shareholding in Norita together with an additional subsidiary, Amagami Mines Limited ("Amagami"). Effective June 30, 1980, the three companies amalgamated under the provisions of the Business Corporations Act of Ontario.

## 10. RELATED PARTY TRANSACTIONS

- (a) During the year, the company purchased 43,000 shares of Rayrock Resources Limited to hold 106,900 shares at December 31, 1981. Rayrock owns 32.4% of Pyx and the companies share many of the same officers and directors.
- (b) Rayrock Resources Limited pays substantially all of the remuneration of directors and senior officers as well as rent and other joint costs (including general exploration) of the company and associated companies and is reimbursed by these companies for their proportionate share thereof. The amount paid during the year by the company with respect to these charges was \$101,350 (1980 — \$76,000).
- (c) During the year, the company purchased certain mining claims from an associated company, at the estimated fair market value, for a total consideration of \$716,000. The estimated fair market value was determined by an independent valuation. The consideration given was as follows:

Cash .....	\$100,000
Promissory note .....	616,000
	<u>\$716,000</u>

Total interest paid on the promissory note during the year amounted to \$73,731.

- (d) During the year, the company sold certain interests in petroleum and natural gas leases to an associated company at the then estimated fair market value of \$297,684. The estimated fair market value was independently determined.







